Rathbone Unit Trust Management Limited stewardship report 2019

(covering 2018 activity)

Rathbones
Look forward

This report has been compiled in accordance with the Financial Reporting Council's (FRC) Stewardship Code, details of which can be found at frc.org.uk/investors/uk-stewardship-code

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About us

Rathbone Unit Trust Management Limited is the unit trust management arm of Rathbone Brothers Plc. Rathbone Unit Trust Management offers a range of equity and bond unit trusts, a multi-asset portfolio (consisting of four sub funds) and two charity funds to meet investors' capital growth and income requirements. We specialise in investment management for the retail investor and segregated institutional accounts. Rathbone Unit Trust Management is a signatory to the UK Stewardship Code, being the only part of the group which is covered by this area of voluntary regulation. Rathbone Unit Trust Management's approach to stewardship and proxy voting is reported via our website rathbonefunds.com

Rathbone Investment Management is one of the UK's largest and longest-established providers of personalised discretionary investment services. We manage funds for individuals, charities and trustees, and are part of Rathbone Brothers Plc, an independent company with a listing on the London Stock Exchange. Due to the unique features of Rathbone Investment Management, our approach to stewardship and proxy voting is reported separately via the website rathbones.com

Rathbones has been a signatory to the Principles of Responsible Investment (PRI) since 2009, the world's leading proponent of responsible investment. We believe in being active stewards of our assets and regularly report on our activities, receiving 'A+' grades for our strategy and governance and stewardship activities in our most recent assessment of progress.

Corporate governance and stewardship at Rathbones

We believe it is in the best interests of our clients for the companies in which we invest to adopt best practice in corporate governance. This provides a framework in which each company can be managed for the long-term interests of its shareholders. Mindful of our responsibilities to our clients, we seek to be good, long-term stewards of the investments which we manage on their behalf, as expressed in our stewardship policy to be found at rathbonefunds.com

Our major responsibility in this regard is to ensure that company boards are functioning well in their role to independently oversee the activities of companies and their management. We have developed a robust approach to proxy voting as a fundamental expression of our stewardship responsibilities. However, stewardship is not limited to this activity. Engagement with companies on governance issues is an important adjunct to voting activities. This report will explain Rathbone Unit Trust Management's approach to proxy voting and engagement within the context of our activities in this regard in the last 12 months.

Our core stewardship principles

We have developed a core set of guiding principles which apply to our stewardship and governance-related activities:

1. **Materiality**
   Principle: We recognise that governance and stewardship risks can be material to the performance and valuation of companies.

2. **Active voting**
   Principle: We actively consider proxy votes for client holdings.

3. **Engagement**
   Principle: Active engagement with companies on governance issues is an important adjunct to voting activities.

4. **Transparency**
   Principle: We report annually on our stewardship activities.

The Stewardship Committee

Proxy voting and shareholder engagement at Rathbones is overseen by a committee of investment professionals from across the business, supported by the stewardship team and an external proxy voting consultant. The committee also meets quarterly to discuss market developments and any proposed policy amendments. The committee's terms of reference guarantee Rathbone Unit Trust Management representation on this body.

Proxy voting policy

We approach each company meeting on a case-by-case basis using a combination of established best practice for each market and knowledge of the particularities of each company to reach a decision. Each decision is taken by the respective fund manager(s) who hold the shares with the assistance of the stewardship team and research from an independent research provider.

Primary governance goals as expressed in our policy are to encourage boards to:

- adopt clear values and standards in business dealings throughout the organisation
- develop a culture of transparency and accountability
- focus on strategic issues and the quality of the business rather than simply short-term performance
- develop appropriate checks and balances to deal with conflicts of interests
- maintain effective systems of internal control and risk management
- create fair remuneration structures that reward the achievement of business objectives at all levels
- recognise and responsibly manage impacts on all stakeholders.

In order for boards to deliver on these goals, we believe that boards should demonstrate the following key features:

- be led by an independent chairman
- the chairman and the chief executive officer roles should be separate and not exercised by the same individual
- the board and its committees should retain the requisite balance of skills, experience, knowledge and independence. This includes an adequate level of diversity
- develop clear and fair remuneration arrangements which incentivise shared value creation
- for larger companies, at least half of the board should be composed of non-executive directors considered to be independent.

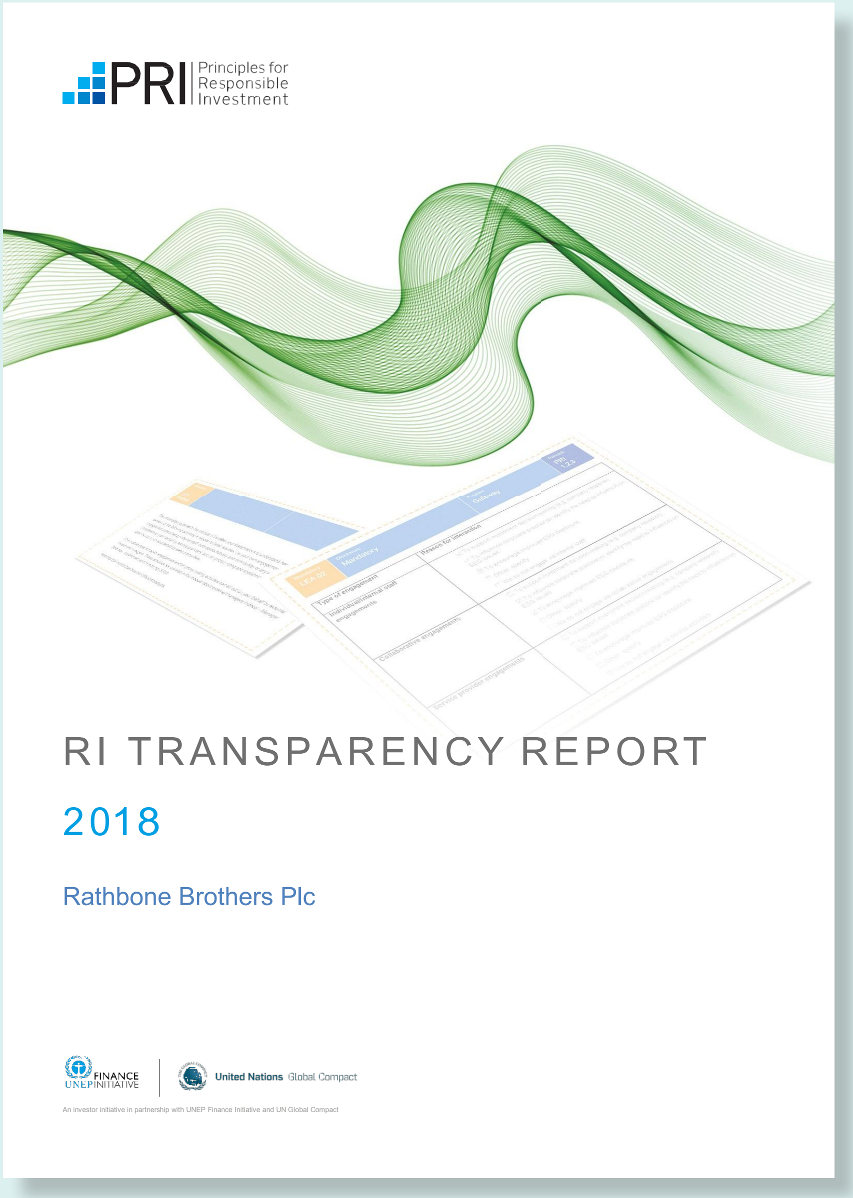
Whilst the core principles of corporate governance are relatively well established, we observe emerging trends in the area. In order to ensure that our policy remains fit for purpose, we ensure that it is reviewed against benchmark standards and principles and updated accordingly on an annual basis. As a result of the 2018 review, we have taken firmer stances on a number of issues including 'overboarding' (the issue of directors holding too many positions at different companies) and addressing lack of diversity on listed company boards.

In 2018 Rathbone Unit Trust Management launched the Rathbone Global Sustainability Fund. Adding to the range of funds, the Rathbone Global Sustainability Fund is a high conviction global stock picking fund which has a natural bias to cash generative and income generating stocks. The fund invests in companies whose activities or ways of operating are aligned with sustainable development and therefore support the achievement of the UN (United Nations) Sustainable Development Goals. Companies displaying strong policies and practices with regard to environmental, social and governance issues are likely to be well-positioned to deliver long-term value creation for investors. The fund avoids companies creating significant negative impacts that are considered to be incompatible with sustainable development. In line with the Rathbone Global Sustainability Fund's more advanced integration of sustainability into the investment process, voting on the fund's holdings is governed by a specialist sustainability-themed voting policy.

Integration with the research process

Our active consideration of governance risks in the proxy voting process gives rise to useful insights which are integrated into the investment research process. Since we assert that governance and stewardship risks can be material to the valuation of companies, we are exploring different ways in which governance risk data can be included within our core research.

Governance risk screening is provided to members of the equity research team for all companies listed on the MSCI World index. Our UK equity team makes use of a screening database comprising 29 governance risk indicators across three broad areas – accounting, board structure and executive pay. A composite governance risk score also forms part of the basic information on company factsheets provided by the research team for use by investment managers. Our governance and voting analyst sits on all relevant internal stock selection committees to provide governance risk insights.



Our progress in this area has resulted in an improvement in a major external benchmarking of our approach to governance and stewardship issues. In 2018 (the latest year for which an assessment has been carried out) the UN-backed Principles of Responsible Investment (PRI) ranked us in the ‘A+’ band with regard to our strategy and governance linked to the responsible investment agenda. Our approach to integrating governance insights into our listed equity ownership was also ranked in the ‘A’ band. Currently we meet best practice requirements for our listed equity incorporation activities, attaining a ‘C’ grade in the last year. However, we hope to make further progress in this area and have identified several initiatives to help drive better performance in the future. We will voluntarily report on the fixed income area in 2019.

Summary showcard

AUM	Module name	Your score	Median score
	01. Strategy and governance	A+	A
Direct and active ownership modules			
>50%	10. Listed equity – incorporation	C	B
>50%	11. Listed equity – active ownership	A	B
<10%	13. Fixed income – corporate financial	Not reported	
<10%	14. Fixed income – corporate non-financial	Not reported	
<10%	16. Private equity	Not reported	
<10%	17. Property	Not reported	
<10%	18. Infrastructure	Not reported	

In 2018 we played a major role in the following UN PRI-coordinated engagements:

Cybersecurity – For the last 18 months, we have been involved in an engagement that is focusing on cyber security governance within 100 global companies from the consumer healthcare, IT and financial sectors. We are currently the lead investor on an engagement with Vodafone. This engagement concludes in April 2019.

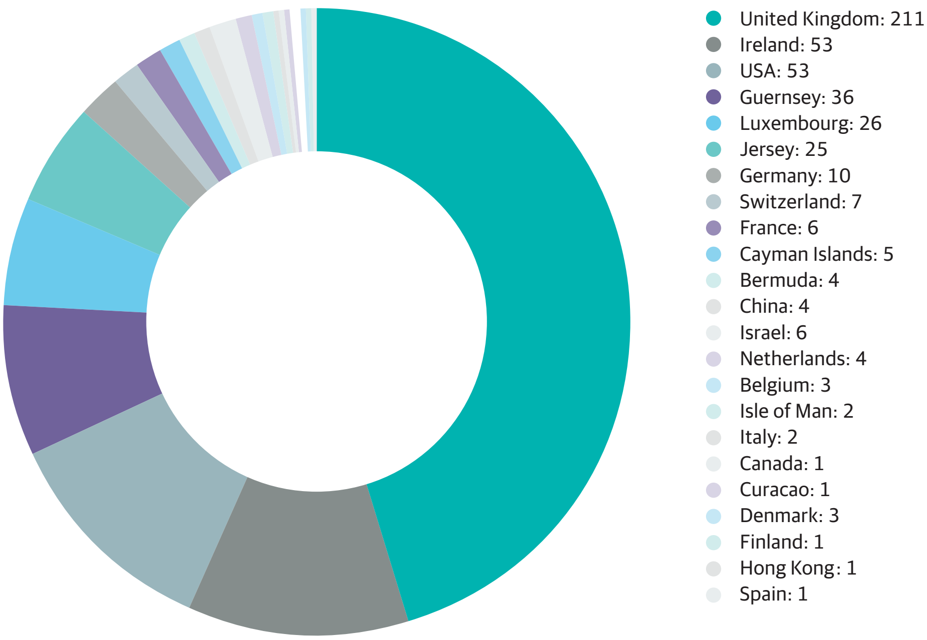
Tax – We have been on the steering committee and a lead investor since the beginning of this engagement in 2014; which engages with high risk companies in the healthcare and IT sectors to enhance corporate income tax disclosure and encourages the development of responsible corporate tax strategies and relevant implementation.

Deforestation – We are part of an on-going engagement committed to eliminating deforestation within cattle supply chains, specifically targeting companies with direct and indirect exposure to deforestation drive by cattle, soy, timber, pulp and other forest risk commodities. This engagement aims to improve the transparency and quality of disclosure for the companies involved.

2018 voting review

In line with our support of and compliance with the Stewardship Code, we vote at corporate events relating to all of our holdings. In the calendar year 2018, we exercised our votes on 1,233 ballot items at 466 company meetings, roughly 98% of all votable meetings.

Votes by country



Meeting overview

Category	Number	Percentage
Number of votable meetings	466	
Number of meetings voted	461	98.93%
Number of meetings with at least one vote against, withhold or abstain	114	24.46%

Ballot overview

Category	Number	Percentage
Number of votable ballots	1,254	
Number of ballots voted	1,233	98.33%

Proposal overview

Category	Number	Percentage
Number of votable items	5,466	
Number of items voted	5,409	98.96%
Number of votes 'For'	5,179	94.75%
Number of votes 'Against'	195	3.57%
Number of votes 'Abstain'	22	0.40%
Number of votes 'Withhold'	12	0.22%
Number of votes 'With Management'	5,166	95.51%
Number of votes 'Against Management'	243	4.45%
Number of votes on shareholder proposals	60	1.10%

Some context is helpful in understanding these figures. Best practice in corporate governance now requires annual re-election of directors, which means that each company meeting usually contains a relatively large number of routine votes on director re-election. There are also a number of routine annual authorisations made at large companies which tend to push the numbers of uncontroversial votes relatively high. Finally, it is worth remembering that sound corporate governance forms part of our base case for investing in a company, and so we would hope that we would never have need to vote wholesale against a company's management.

Proposal type category	Total	Percentage
Anti-takeover related	0	0.00%
Capitalisation and shareholder rights	51	20.99%
Directors-related (board independent)	78	32.10%
Executive pay	65	26.75%
Mergers, acquisitions and takeovers	1	0.41%
Routine/business	24	9.88%
Environmental and social	5	2.06%
Audit-related	10	4.12%
Lobbying	9	3.70%
Grand total	**243**	**100.0%**

As this is only the third year of reporting, as expected we have made some improvements to the reporting process. This means that we are not reporting exactly the same categories of votes 'Against' as last year; however we are reporting on more useful categories, including splitting out several categories into more detail. Given the strong focus on the role of the audit industry in global investment, we now consider it important to report separately on this aspect of corporate governance.

Notable votes 2018

During the year we supported several environmental, social, governance (ESG) themed shareholder proposals against the wishes of management.

Alphabet

Report on gender pay gap
Google owner Alphabet has faced criticism for its efforts to manage a variety of aspects of the diversity of its staff, notably the gap between average earnings of its male and female staff. At Google, approximately 31 percent of employees are women, and women account for 25 percent of the firm's leadership, yet data leaked by employees shows that men are paid more than women at five of six employee seniority levels. The resolution called for the company to better report on its efforts to narrow the gender pay gap and manage diversity risks. We considered this proposal to be sensible and so voted in favour.

The Home Depot

Prepare employment diversity report and report on diversity policies
US do-it-yourself chain Home Depot has paid out more than $100 million to settle discrimination lawsuits over 20 years, and has faced scrutiny over its hiring practices. The resolution in question was a repeat filing from the previous year where it gained the support of 33% of shareholders. At its heart, the resolution called for much improved reporting and transparency on the way in which the company is assessing and managing the diversity of its workforce. Consistent with our policy, we supported the call for greater disclosure on ESG risks at the company.

Monster Beverage

Report on human trafficking and forced labour in supply chains
Major energy drinks maker Monster has stated its belief that it faces 'minimal risk' of exposure to human trafficking and modern slavery, despite sourcing ingredients from supply chains known to be high risk for such human rights abuses. The proposal requested the company to issue a report containing the criteria and analytical methodology used to determine its conclusion of "minimal risk" of slavery and human trafficking in its sugarcane supply chain. Again, we supported the proposal as not only did it stand to improve corporate disclosure, it addresses an area of potential reputational risk which the company would do well to manage more effectively.

Engagement

Engagement can take a number of forms, including (but not limited to):

- regular and ad hoc face-to-face meetings with management
- teleconferences with senior management
- formal written correspondence
- informal written correspondence.

Engagement may cover a wide range of issues. The following topics are ranked in order of the frequency and intensity with which we engaged with companies:

Issue	Typical content of engagement
Board and directors	Leadership, effectiveness, committee composition, succession planning, diversity and independence
Remuneration	Pay policy, disclosure on pay policy and structure, recruitment awards and malus or clawback provisions
Capital structure	Share issues and issues of shares without pre-emption rights
Accounting and audit	Auditor independence and non-audit fees, rotation of auditor and account misstatements

Our engagement activities are carried out in line with the Rathbone Unit Trust Management engagement policy, paying due regard to the Rathbone Unit Trust Management conflicts of interest policy.

Case study
Patisserie Holdings Plc

Issue:
Our engagement with the holding company of the Patisserie Valerie café chain has been ongoing for some time, but reached a peak in 2018. In the run up to the company's annual general meeting in January 2018, we engaged with the board explaining our deliberations regarding the re-election of the chairman. Although the firm is alternative investment market (AIM) listed and hence is not subjected to the full spectrum of corporate governance best practice, we expressed concerns with two facets of the board's structure and its committees. The chairman was an executive member of the board and therefore was not considered independent, and yet was a key component of the audit committee and the remuneration committee. We requested further dialogue, and outlined our concerns over the composition of the audit committee in particular, which requires independence in order to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control.

Process:
In October 2018, the company announced "significant, and possibly fraudulent" accounting irregularities suffering a cash flow crisis severe enough to warrant a winding up order from tax authorities. Its chief financial officer was suspended, and a rescue package hastily assembled by chief executive officer Luke Johnson and put to a shareholder vote on the 1 November. We had major issues with the rescue package, financed almost entirely from the chief executive officer's private resources, which placed shareholders in a precarious position. Whilst we objected to being placed further down the pecking order of creditors, it became clear that the company had no future without the rescue package, and we voted in favour. However, a Rathbones representative attended the extraordinary general meeting in November to make clear our concerns.

Outcome:
With trading in the shares of the company suspended, the future of the group remains unclear. In January 2019 the make-up of the board became somewhat more palatable with the resignation of one of the conflicted non-executive directors. However, the group also announced that its financial difficulties were worse than initially feared. Sadly, we are not able to report any major success for our engagement thus far. The decline of the company serves as a lesson of why paying attention to seemingly insignificant governance matters can play a major role in protecting value for shareholders.

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